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The US central bank, called the Federal Reserve, was created in 1913. No one promoted this institution with the slogan that it would make wars more likely and

fund the wars. In this role, it has solved a major problem that the state has confronted for all of human history. A state without money or a state that must tax its citizens to raise money for its wars is necessarily limited in its imperial ambitions. Keep in mind that this is only a problem for the state. It is not a problem for the people. The inability of the state to fund its unlimited ambitions is worth more for the people than every kind of legal check and balance. It is more valuable than all the constitutions ever devised.

The state has no wealth that is its own. It is not a profitable enterprise. Everything it possesses it must take from society in a zero-sum game. That usually means taxes, but taxes annoy people. They can destabilize the state and threaten its legitimacy. They inspire anger, revolt, and even revolution. Rather than risk that result, the state from the Middle Ages to the dawn of the central banking age was somewhat cautious in its global ambitions simply because it was cautious in its need to steal openly and directly from the people in order to pay its bills.

To be sure, it doesn't require a central bank for a state to choose inflation over taxes as a means of funding itself. All it really requires is a monopoly on the production of money. Once acquired, the monopoly on money production leads to a systematic process of depreciating the currency, whether by coin clipping or debasement or the introduction of paper money, which can then be printed without limit. The central bank assists in this process in a critical sense: it cartelizes the banking system, the essential conduit by which money is lent to the public and to the government itself. The banking

regarded paper money as the fuel of tyranny.

Consider Thomas Paine:

Paper money is like dram-drinking, it relieves for a moment by deceitful sensation, but gradually diminishes the natural heat, and leaves the body worse than it found it. Were not this the case, and could money be made of paper at pleasure, every sovereign in Europe would be as rich as he pleased.... Paper money appears at first sight to be a great saving, or rather that it costs nothing; but it is the dearest money there is. The ease with which it is emitted by an assembly at first serves as a trap to catch people in at last. It operates as an anticipation of the next year's taxes.

But the wisdom of this generation, attacked by Lincoln, was finally thrown out during the Progressive Era. It was believed that an age of scientific public policy needed a scientific money machinery that could be controlled by powerful elites. The dawn of the age of central banking was also the dawn of the age of central planning, for there can be no government control over the nation's commercial life without first controlling the money. And once the state has the money and the banking system, its ambitions can be realized.

Before the creation of the Federal Reserve, the idea of American entry into the conflict that became World War I would have been inconceivable. In fact, it was a highly

policy.

Reflecting on the calamity of this war, Ludwig von Mises wrote in 1919

One can say without exaggeration that inflation is an indispensable means of militarism. Without it, the repercussions of war on welfare become obvious much more quickly and penetratingly; war weariness would set in much earlier.

There is always a price to be paid for funding war through the central bank. The postwar situation in America was a classic case. There was inflation. There were massive dislocations. There was a recession or what was then called depression, a direct result of capital dislocation that masked itself as an economic boom, but which was then followed by a bust. The Depression hit in 1920, but it is not a famous event in the United States' economic history. Why is that? Because the Federal Reserve had not yet acquired the tools to manufacture an attempt to save the economy. Instead, neither the Fed nor Congress nor the president did much of anything about it — a wholly praiseworthy response! As a result, the depression was brief and became a footnote to history. The same would have happened in 1930, had Hoover not attempted to use the government as the means of resuscitation.

Sadly, the easy recovery of 1920–1922 tempted the central bank to get back into the business of inflation, with the eventual result of a stock market boom that led to a bust,

the history of the world — all made possible by a central bank that obliged the government and monetized its war debt.

But did people blame the printing press? No. The popular explanation dealt directly with the Treaty of Versailles. It was the harsh peace imposed by the Allies that had brought Germany to the brink of total destruction — or so it was believed. Mises himself had written a full book that he hoped would explain that Germany owed its suffering to war and socialism, not Versailles as such. He urged the German people to look at the real cause and establish free markets, lest imperial dictatorship be the next stage in political development. But he was ignored.

The result, we all know, was Hitler.

Turning to Russia, the untold truth about the Bolshevik revolution is that Lenin's greatest propaganda tool involved the suffering of the Russian people during World War I. Men were drafted and killed at a horrific level. Lenin called this capitalist exploitation, based on his view that the war resulted from capitalist motives. In fact, it was a foreshadowing of the world that socialism would bring about, a world in which all people and all property are treated as means to statist ends. And what made the prolongation of the Russian role in World War I possible was an institution created in 1860 called the State Bank of the Russian Empire — the Russian version of the Fed.

system. It was not an end to bank runs and bank panics. It certainly wasn't scientific public policy. The world's major economies were being lorded over by money monopolies, and the frontmen had become some of the worst despots in the history of the world. Now they were preparing to fight each other with all the resources they had at their disposal. The resources they did *not* have at their disposal they would pay for with their beloved machinery of central banking.

In wartime, the printing presses ran overtime, but with a totalitarian level of rationing, price controls, and all-around socialization of resources in the whole of the Western world, the result of inflation was not merely rising prices. It was vast suffering and shortages in Britain, Russia, Germany, Italy, France, Austria-Hungary, the United States, and pretty much the entire planet.

So we can see here the amazing irony of central banking at work. The institution that was promoted by economists working with bankers, in the name of bringing rationality and science to bear on monetary matters, had given birth to the most evil political trends in the history of the world: Communism, socialism, Fascism, Nazism, and the despotism of economic planning in the capitalist West. The story of central banking is one step removed from the story of atom bombs and death camps. There is a reason the state has been unrestrained in the last 100 years, and that reason is the precise one that many people think of as a purely technical issue that is too complicated for mere mortals.

the money for the war through taxes. It never would have happened. But he didn't have to. He knew the money would be there. So despite a \$200 billion deficit, a \$9 trillion debt, \$5 trillion in outstanding debt instruments held by the public, a federal budget of \$3 trillion, and falling tax receipts in 2001, Bush contemplated a war that has cost \$525 billion dollars — or \$4,681 per household. Imagine if he had gone to the American people to request that. What would have happened? I think we know the answer to that question. And those are government figures; the actual cost of this war will be far higher — perhaps \$20,000 per household.

Now, when left-liberals talk about these figures, they like to compare them with what the state might have done with these resources in terms of funding health care, public schools, Head Start centers, or food stamps. This is a mistake because it demonstrates that the Left isn't really providing an alternative to the Right. It merely has a different set of priorities in how it would use the resources raised by the inflation machine. It's true that public schools are less costly in terms of lives and property than war itself. But the inflation-funded welfare state also has a corrosive effect on society. The pipe dream that the inflation monster can be used to promote good instead of evil illustrates a certain naïveté about the nature of the state itself. If the state has the power and is asked to choose between doing good and waging war, what will it choose? Certainly, in the American context, the choice has always been for war.

It is equally naïve for the Right to talk about restraining the government while wishing for global war. So long as the state has unlimited access to the printing press, it can

feeling it hard. And just as in every other inflation in world history, people are looking for the culprit and finding all the wrong ones. They believe it is the oil companies who are gouging us, or that foreign oil dealers are restricting supply, or that gas station owners are abusing a crisis to profit at our expense.

I wouldn't entirely rule out the possibility that price controls are around the corner. When Nixon imposed them in 1971, neither he nor his advisors believed that they would actually result in controlling inflation. Rather, the purpose was to redirect the target of public anger from the government and its bank over to retailers, who would become scapegoats. In this sense, price controls do work. They make people believe that the government is trying to lower prices while the private sector is attempting to raise them. This is the real political dynamic at work with price controls.

The question is whether you will be taken in by these tactics. It is long past time for us to take note that the cause of the real trouble here is not the manufacturers or even the war as such, but the agency that has been granted a legal right to counterfeit at will and lower the value of the currency while fueling every manner of statist scheme, whether welfare or warfare. We need to look at the Fed and say, *this* is the enemy.

Note that the Federal Reserve is not a political party. It is not a recognized interest group. It is not a famed lobby in Washington. It is not really even a sector of public opinion. It seems completely shielded from vigorous public debate. If we truly believe in liberty and decry the leviathan state, this situation cannot be tolerated.



the state to fund your dreams, you cannot expect that the state will not also fund the dreams of people you hate.

And let me say a few words to libertarians, who dream of a world with limited government under the rule of law, a world in which free enterprise reigns and where the state has no power to interfere in our lives so long as we behave peacefully. It is completely absurd to believe that this can be achieved without fundamental monetary reform. And yet, until the most recent Ron Paul campaign — and aside from Murray Rothbard and the 26-year-long work of the Mises Institute — I don't recall that libertarians themselves have cared much about this issue at all.

In 1983, the Mises Institute held a large academic conference on the gold standard, and we held it in Washington, D.C. (There were scholarly papers and Ron Paul debated a Fed governor. Ron won.) Even back then, I recall that D.C. libertarians ridiculed us for holding such a meeting to talk about the Fed and its replacement with sound money. They said that this would make the Mises Institute look ridiculous, that we would be tarred with the brush of gold bugs and crazies. We did it anyway. And all these years later, the book that came out of that conference remains a main source for understanding the role of money in the advance of despotism or resistance to it, and a blueprint for the future.

Of course the Austrian tradition fought paper money and central banking from the beginning. Menger was an advocate of the gold standard. Böhm-Bawerk actually

precisely the reason we must talk about it on every occasion. We must end the conspiracy of silence on this issue.

I was intrigued at how Ron Paul, during his campaign, would constantly bring up the subject. Most politicians are out to play up to their audiences, so they say things that people want to hear. I promise you that early in the campaign, no one wanted to hear him talk about the Federal Reserve. But he did it anyway. He worked to educate his audiences about the need for monetary reform. And it worked. For the first time in my life, there is a large and very public movement in this country to take this topic seriously.

Monetary economist Joseph Salerno was called the other day by C-Span, which wanted to interview him on television on the need to restore gold as the basis of our currency. As I watched [this excellent interview](#), I was struck by what a great triumph it truly is for liberty that [this topic is again part of the national debate](#). In the 19th century, this was a topic on everybody's mind. It can be again today, provided we do not eschew the truth in the formation of our message.

It might be said that advocating privatization is politically unrealistic, and therefore a waste of time. What's more, we might say that by continuing to harp on the issue, we only marginalize ourselves, proving that we are on the fringe. I submit that there is no better way to ensure that an issue will always be off the table than to stop talking about it.

social progress and muck things up as much as possible. What they do not do, however, is wage massive global wars, run huge deficits, accumulate trillions in debt, reduce the value of money, bail out foreign governments, provide endless credit to failing enterprises, administer hugely expensive and destructive social insurance schemes, or bring about immense swings in business activity.

State and local governments are awful and they must be relentlessly checked, but they are not anything like the threat of the federal government. Neither are they as arrogant and convinced of their own infallibility and indispensability. They lack the aura of invincibility that the central government enjoys.

It is the central bank, and only the central bank, that works as the government's money machine, and this makes all the difference. Now, it is not impossible that a central bank can exist alongside a gold standard, a lender of last resort that avoids the temptation to destroy that which restrains it. In the same way, it is possible for someone with an insatiable appetite for wine to sit at a banquet table of delicious vintages and not take a sip. Let's just say that the existence of a central bank introduces an occasion of sin for the government. That is why under the best gold standard, there would be no central bank, gold coins would circulate as freely as their substitutes, and rules against fraud and theft would prohibit banks from pyramiding credit on top of demand deposits.

want to secure freedom for yourself and your descendants, abolish the Fed.

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